

## The Impact of Managerial Competencies on the Performance of Immigrant- Owned Enterprises in South Africa

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### Abstract

*The study investigates the impact managerial competencies (specifically owners' education, prior and related experience) on the performance of immigrant owned enterprises in South Africa. The empirical approach consists of data collection through the use of self-administered questionnaire in a survey. Data analysis included descriptive statistics and the Chi-square test of independence. The results indicate that there is a relationship between owners' education and performance. Higher level of education (Matric and above) is associated albeit insignificantly with business performance. Business owners with work experience prior to starting business significantly perform better than those without prior experience. Business owners with related experience prior to starting business significantly perform better than those without related experience. Recommendations to improve the level of education and experience of the owners of immigrant entrepreneurs of are suggested.*

**Keywords:** managerial competencies; immigrant entrepreneurs; performance; South Africa.

### 1. Introduction

South Africa suffers from high rate of unemployment with an official estimate of approximately 24.7% of the economically active population unemployed (Statistics South Africa, 2013). One of the best ways to address unemployment is to leverage the employment creation potential of small businesses (FinMark Trust, 2006). Small and medium enterprises (SMEs) are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development in South Africa (Maas & Herrington, 2006). According to the Organisation for Economic Cooperation and Development (2006) SMEs are recognised worldwide to be a key source of dynamism, innovation and flexibility. SMEs are responsible for most net job creation and they make an important contribution to productivity and economic growth.

Pendleton et al. (2006) point out that South Africa is a rainbow nation composed of various racial groups from all facets of the earth. Following independence in 1994, an increasing number of immigrants migrated to South Africa from other African countries and from other continents. Gibson et al. (2011) note that entrepreneurship can help to limit the persistently high unemployment rate generally associate with immigrants. Thus, immigrants can become a significant driving force in the creation of new businesses. Kalitanyi and Visser (2010) and Gebre et al. (2011) note that immigrant entrepreneurship can positively impact the South African economy. Dana (2007) immigrant entrepreneurs have emerged as key engines of growth in their host countries and with better planning and support, immigrant entrepreneurship can provide an even bigger economic boost in the future.

However, despite the noted contribution of SMEs (including immigrant-owned enterprises), it is estimated that the failure rate of SMEs in South Africa is between 70% and 80%. As a result, many SMEs do not reach their full potential. This is a distinct and adverse feature of South Africa's entrepreneurial sector. Problems encountered by SMEs (including immigrant-owned enterprises) are numerous and can be described amongst others as being environmental, financial or managerial in nature (Brink et al. 2003). According to Ahmad et al. (2010) the critical resources for SMEs are likely to be held by the individual entrepreneurs that are likely to be reflected in their skills, competence, knowledge, experience and education. Hellriegel et al. (2008) define managerial competencies as a set of knowledge, skills, behaviours and attitudes that contribute to personal effectiveness. Bosma et al. (2004) argue that an entrepreneur's specific competencies positively impacts on firm performance. This study focuses specifically on the impact of three measures of managerial competencies (level of education, prior work experience and related experience) on the performance of immigrant-owned enterprises in South Africa.

## 2. Objective

Immigrant entrepreneurship is one of the ways to improve the low levels of entrepreneurship in South Africa. The survival and growth of immigrant-owned businesses are critical to employment creation and poverty reduction in South Africa. The objective of the study is to investigate the impact of managerial competency determinants (specifically level of education, related experience and prior work experience) on the performance of immigrant-owned enterprises in South Africa.

## 3. Literature Review

According to Pfeffer and Salancik (1978), the Resource Dependency Theory (RBT) argues that resources are a critical or important part of an organisation's operation. Kraaijenbrink et al. (2010) point out that resources can help a new firm to gain and sustain competitive advantage. According to Bolingtoft et al. (2003), to establish and sustain a new small firm, the entrepreneur needs to have access to different types of resources (i) human capital; (ii) physical capital; and (iii) financial capital, each playing different, but equally important roles during the life cycle of the firm. The Human Capital theory by Schultz (1961) points out that knowledge, skills and competencies are a form of capital. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Becker (1964) in his seminar book entitled "Human Capital" views human skills and competencies as similar to physical means of production such as factories and machines.

The SME Financing Data Initiative (2009) examines the role of experience in SME growth using the Managerial Capacity Index (MCI). The MCI presents a composite measure of managerial experience and activity. The study finds that a high score in the managerial capacity index is positively associated with both strategic planning practices (planning sophistication, ability to communicate business intentions) and high firm performance and growth. Lefebvre and Lefebvre (2002) report that innovative capabilities of the management team (e.g. ability to undertake research and development, knowledge intensity and unique know-how) are strongly associated with export performance and firm growth.

Lyles et al. (2004) evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The performance of new ventures was measured by return on assets (ROA), return on sales (ROS), return on employees (ROE), growth rate of assets (GRAS) and growth rate of employees (GREP). The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. Bosma et al. (2004) find that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurs-specific human capital contributes significantly to the performance of small firm. Hormiga et al. (2011) find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of SMEs. Education seems to provide the knowledge base and analytical and problem-solving skills to more effectively deal with the demands of entrepreneurship. Intellectual capital is critical to management process and can create sustained competitive advantage. Being knowledgeable can help an entrepreneur to be innovative. Lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers.

Nguyen and Ramachandran (2006) point out that managerial competency is one of the key criteria for banks to grant loans. Access to capital is vital to the performance of SMEs. This criterion is even more important when banks lack accurate financial information about the borrowing firms. From the bankers' point of view, the lack of management competency of new ventures decreases their legitimacy. Managerial competencies are also an important factor in the post-failure earning capacity of the owners of new SMEs. Blumberg and Letterie (2008) find that the earning capacity of a business starter in a subsequent job, i.e. the job after the eventual failure of the business, is a signal to the bank of whether the business starter can meet his credit obligations even if the business fails. The income that a business starter earned previously is an indicator, which signals the earning capacity after an eventual failure. Highly educated business starters are more likely to have a high post-failure earning capacity than less educated people. This suggests that the greater the level of managerial competency the greater the performance and the more likely the survival of SMEs.

## 4. Research Methodology

The survey was conducted in the Johannesburg Central Business District in Gauteng province of South Africa. The

empirical approach consists of data collection through the use of self-administered questionnaire in as survey. Because of the difficulty of obtaining the population of immigrant-owned businesses in the study area, convenience sampling and the snowball sampling methods were used. The questionnaires were given to the owners of the business to complete. The study centred on businesses in the retail and service sectors. Both Likert scale and dichotomous questions were used to obtain information from the respondents. Performance was measured through both financial (objective) and non-financial (subjective) methods. Financial measures focused on satisfaction with sales growth and profitability growth. Non-financial measures focused on performance relative to competitors and satisfaction with overall business performance. The performance measures were averaged. Statistical analysis included descriptive statistics and the chi-square test of independence.

## 5. Results and Discussions

### 5.1 Response rate and demographics of the respondents

Out of 176 questionnaires distributed, 68 were returned. This gives a response rate of 38.6%. 51 respondents were male and 17 female. 7 respondents did not complete Matric and 24 respondents have Matric or Matric equivalent and 37 respondents have post Matric qualifications. 42 respondents had work experience prior to starting the business. 38 respondents had related experience prior to starting the business

### 5.2 Chi-square test of independence

The results of the Chi-square test of independence indicate that high levels of education (post Matric) is associated with better performance ( $X^2$ ,  $n=61$ ,  $=8.27$ ,  $p<.16$ ). However, the results are not significant at 0.05 level of significance. Business owners with prior work experience prior to starting business significantly perform better than those without prior experience ( $X^2$ ,  $n=61$ ,  $=4.26$ ,  $p<.05$ ). Business owners with related experience prior to starting business significantly perform better than those without ( $X^2$ ,  $n=61$ ,  $=8.14$ ,  $p<.005$ ).

The results are consistent with the findings of previous empirical studies on managerial competencies and firm performance. Lyles et al. (2004) evaluate the impact of managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. Bosma et al. (2004) find that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurs-specific human capital contributes significantly to the performance of small firm. Hormiga et al. (2011) find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of SMEs. Education seems to provide the knowledge base and analytical and problem-solving skills to more effectively deal with the demands of entrepreneurship. Intellectual capital is critical to management process and can create sustained competitive advantage. Being knowledgeable can help an entrepreneur to be innovative. Chilya and Roberts-Lombard (2012) find that previous work experiences have a significant impact on the profitability of small grocery shops in South Africa

## 6. Conclusions

Immigrant entrepreneurship is one of the ways to improve the low levels of entrepreneurship in South Africa. The survival and growth of immigrant-owned businesses are critical to employment creation and poverty reduction in South Africa. The objective of the study is to investigate the impact of managerial competency determinants (specifically level of education, related experience and prior work experience) on the performance of immigrant-owned enterprises in South Africa. The results indicate that there is an insignificant relationship between level of education and performance. Business owners with prior work experience prior to starting business significantly perform better than those without prior experience. Business owners with related experience prior to starting business significantly perform better than those without related experience.

## 7. Recommendations

To improve managerial competencies, there is the need for personal development by immigrant business owners in the

area of education. Business owners should attend courses on management organised by universities and other agencies that support small businesses in South Africa. Organisations responsible for small business development in South Africa should make conscious effort to recognise immigrant entrepreneurs as a specific target market for training. In addition, to gaining work and related experience, budding immigrant entrepreneurs can work with established entrepreneurs for a certain period of time. This will allow new entrepreneurs to gain experience in the functional areas of management such as finance, strategic and operational planning and marketing.

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